

**PRESIDENT'S BUDGET MESSAGE**

June 14, 2005

**MEMBERS OF THE BOARD OF TRUSTEES:**

I am pleased to submit for your consideration and approval an operating budget for 2005-06 that totals \$1.665 billion. It represents our continuing effort to fulfill our responsibilities to the people of Kentucky and our mission and mandate as their flagship university.

Three weeks ago, I began a tour that took me from one end of our Commonwealth to the other. UK's deans, faculty, staff, and students joined me in Paducah and northern Kentucky and Hazard and Somerset and places in between. Along the way, we talked with public officials, business leaders, schoolteachers, prospective students, UK alumni, and Kentuckians from every walk of life. We talked with them in large auditoriums and small gatherings and at breakfasts and cookouts and on the radio. We talked with them about the dreams they hold for themselves, their families, and their communities. And we talked with them about the challenges we face together in achieving those dreams.

On our "Dream Tour," we had two messages for the people of Kentucky. First, the work we do at their University of Kentucky touches their lives every day, even if they never set foot on campus and often in ways they do not recognize. Second, there is so much more we can and we must do to improve lives and strengthen communities.

Five days ago, we returned to campus reminded of the enormity of the challenges we face. Too many Kentuckians are not ready to compete successfully in this economy. Too many Kentuckians need discoveries to cure the diseases that hamper and harm them. Too many businesses and the communities they serve are struggling to survive and prosper.

We also came home with renewed vigor and resolve, emboldened by both the challenges and the opportunities before us. More than at any other time, the University of Kentucky can and must be an immediate and effective partner in helping Kentuckians bridge the distance that separates the lives they lead from the dreams they have for themselves and for their children.

In this time when human potential is measured more than ever by the agility of mind rather than the strength of back, we will be the foundation upon which our students build the futures they want and the future we share. In this age of global competition and rapid technological advance, research and discovery on the campus of a vibrant and engaged flagship university is essential to our personal and collective prosperity. In this period of health care upheaval, a world class medical care and medical research facility must be available right here in Kentucky.

We will cultivate across Kentucky increased expectations for this university. Then, we will rise to meet them.

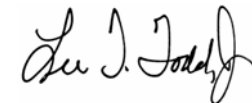
The budget I recommend to you today is an investment to conquer challenges and encourage dreams. We are investing especially in our people because this university is only as strong as our faculty and staff; they are the University of Kentucky. We must be able to keep the faculty we have and recruit the ones we need. They are the ones helping our students develop skills to compete in an economy dominated by the advance of knowledge, technology, and information. UK's faculty and staff assist current and future entrepreneurs in developing products and improving the way they do business. UK's faculty and staff earn more than \$238 million per year in external research dollars aimed at discovery, disease treatment and prevention, business development, and job creation. They have shouldered the burden created by more students – 2,700 more since 2000 - and fewer resources. They are the ones making UK's retention and graduation rates the highest in Kentucky.

The General Assembly has mandated we become a Top 20 public research university by 2020. When that moment arrives, we will be judged not by the number of research dollars we earn, but by how well we use them to attack the health and economic hardships that plague too many of our fellow Kentuckians for too much of their lives. We will be judged not by the number of nationally ranked programs we have, but by how well our programs build Kentucky's economy, strengthen our communities, and solve our problems. We will be judged not by the number of students we teach, but by the futures they build and the contributions they make to our social and economic fabric.

In short, we will be judged by how well we succeed as a university in being a catalyst for a new Commonwealth – one that is healthier, more prosperous, and competitive in the global economy.

The details of our FY 2005-06 budget are included in the following pages. I hereby request that the Board accept this operating and capital budget and approve the appropriation and allocation of all fund balances for future operations, to include amounts necessary to cover accounts receivable and inventories that will represent assets on the audited balance sheet of the University of Kentucky for FY 2005-06. These balances are in addition to those incorporated in the proposed budget. Since the books of account for the University of Kentucky are maintained on a full accrual basis, this action will provide the funds necessary to maintain a sound financial position during the 2005-06 fiscal year.

I am grateful for the opportunity to work with you in the noble cause that defines the University of Kentucky. This fall, first graders across Kentucky will take the next step in their journey toward becoming members of UK's Class of 2020. Over the next 15 years, we will continue to build the kind of flagship university these Kentuckians deserve. Together we will dream. We will challenge. We will succeed.



Lee T. Todd, Jr.,  
President

## BUDGET AT A GLANCE

For the first time since 2000, the Governor and the Kentucky General Assembly have been able to provide a substantial increase in the state appropriation to the University of Kentucky. Approved by the General Assembly in March, the 2005-2006 Budget of the Commonwealth provides \$13.2 million in new funding for UK and an additional \$5.4 million in new dollars earmarked for specific purposes. These funds have enabled UK to lower planned tuition increases and will provide funds to build on the accomplishments of recent years and invest in institutional priorities. The Governor and General Assembly also have provided funds for critical capital projects and authorized the institution to fund on its own other important construction.

### ACCOMPLISHMENTS SINCE 2000:

- Enrollment increased by 2,698 students (11.3 percent)
- First-year student class increased by 872 students (30 percent)
- Governor's Scholars and Governor's School for the Arts students have more than tripled to 303 students
- Six-year graduation rate increased by over four percentage points to 59.6 percent, the highest of all public universities in Kentucky
- Total number of degrees awarded annually increased by 369 to 5,247 (7.6 percent)
- UK researchers brought in a record \$238.3 million of outside funding for grants and contracts, an increase of 37 percent
- Market value of endowments increased to \$532.4 million

### 2005-2006 BUDGET INVESTMENTS:

In our faculty and staff:

- Fund a four percent merit salary increase pool
- Cover most of the increase in health care insurance costs

In our students:

- Provide more scholarships
- Fund program improvements

In our infrastructure:

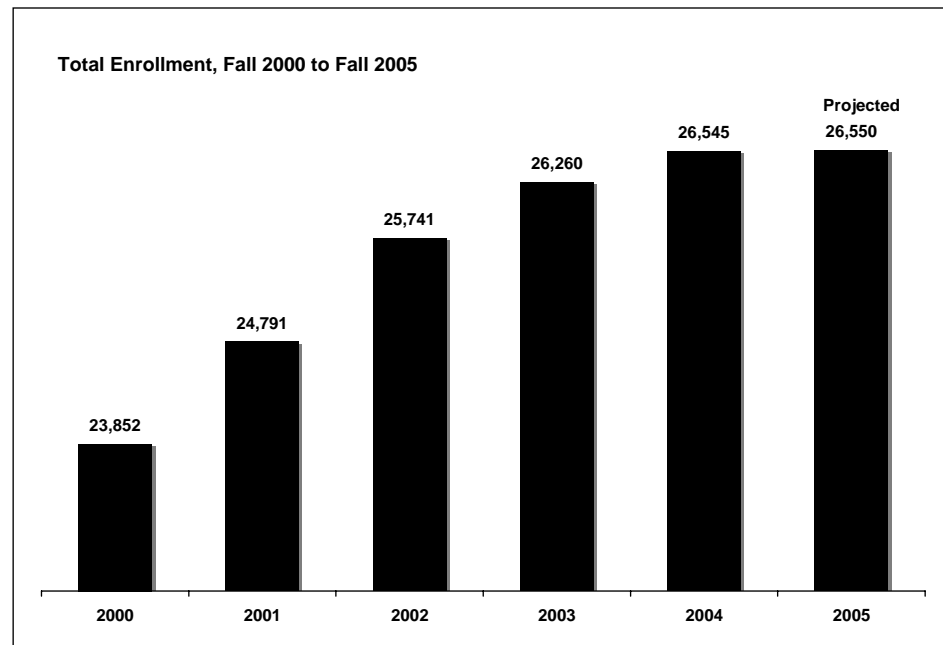
- Fund implementation of administrative computing system (IRIS)

**ACCOMPLISHMENTS: UK IS SERVING MORE STUDENTS**

Since 2000, UK has increased enrollment:

- from 70 Kentucky counties
- from 19 of the Council on Postsecondary Education’s 29 “underserved” counties
- from 32 of Kentucky’s 55 Appalachian counties
- among Pell Grant eligible students

UK is the only Kentucky university where Kentuckians’ share of the undergraduate population has remained steady since 1998 (84.3 percent).



**ACCOMPLISHMENTS: UK IS IMPROVING STUDENT QUALITY**

<b>First-Year Students, Fall 2000 to Fall 2004</b>				
<b>Year</b>	<b>Total Number of First-Year Students</b>	<b>Governor's Scholars/Governor's School for the Arts</b>	<b>Valedictorians</b>	<b>Number of Students Entering with Advanced Placement Credit</b>
2004	3,961	303	157	944
2003	3,688	318	145	857
2002	3,718	272	148	728
2001	3,037	125	125	577
2000	2,928	98	86	502

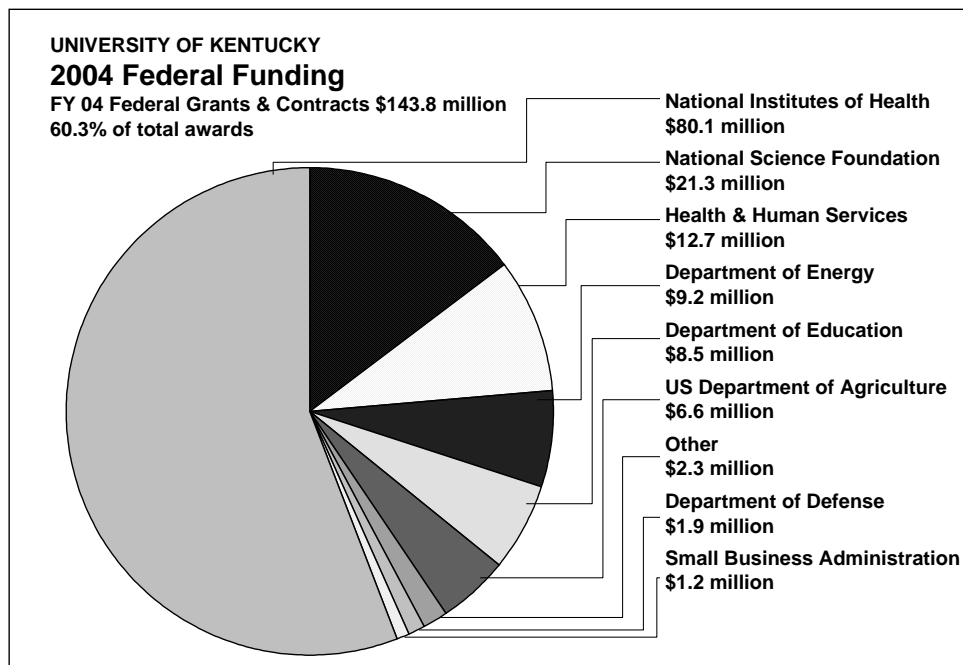
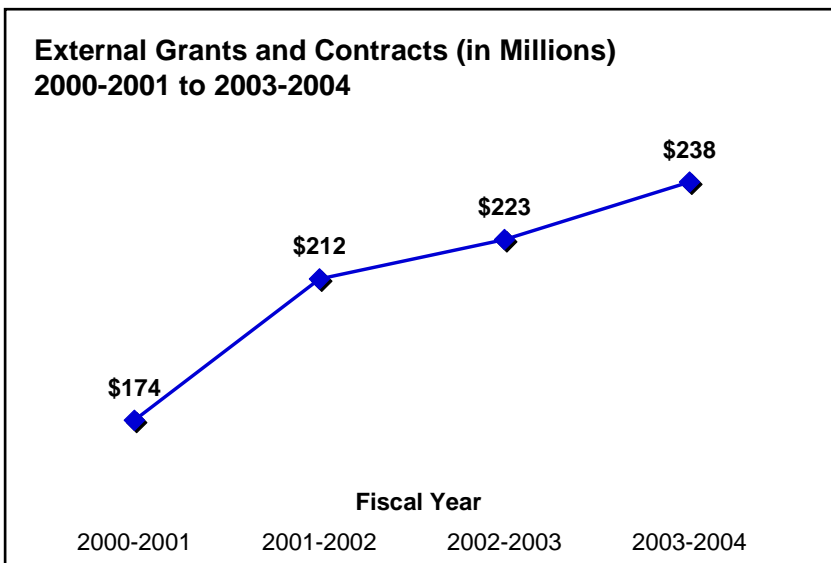
**ACCOMPLISHMENTS: UK IS LEADING KENTUCKY IN STUDENT SUCCESS**

Change in Retention Rates, 2000 to 2004 Kentucky Public Institutions		
	2000	2004
<b>University of Kentucky</b>	<b>88.0%</b>	<b>87.6%</b>
University of Louisville	78.7%	81.3%
Murray State University	77.7%	77.8%
Western Kentucky University	76.8%	75.1%
Eastern Kentucky University	72.9%	73.7%
Morehead State University	71.1%	71.9%
Kentucky State University	69.8%	68.0%
Northern Kentucky University	68.2%	67.3%
KCTCS	54.9%	56.5%
<b>Total Postsecondary Education System</b>	<b>69.1%</b>	<b>69.1%</b>

Change in Graduation Rates, 2000 to 2004 Kentucky Public Institutions		
	2000	2004
<b>University of Kentucky</b>	<b>55.3%</b>	<b>59.6%</b>
Murray State University	46.3%	57.3%
Western Kentucky University	41.5%	44.5%
Northern Kentucky University	35.4%	39.5%
Morehead State University	38.6%	37.9%
Eastern Kentucky University	30.0%	33.8%
University of Louisville	30.8%	33.3%
Kentucky State University	31.2%	29.5%
<b>Total University System</b>	<b>39.8%</b>	<b>44.3%</b>

**ACCOMPLISHMENTS: UK IS STRENGTHENING RESEARCH**

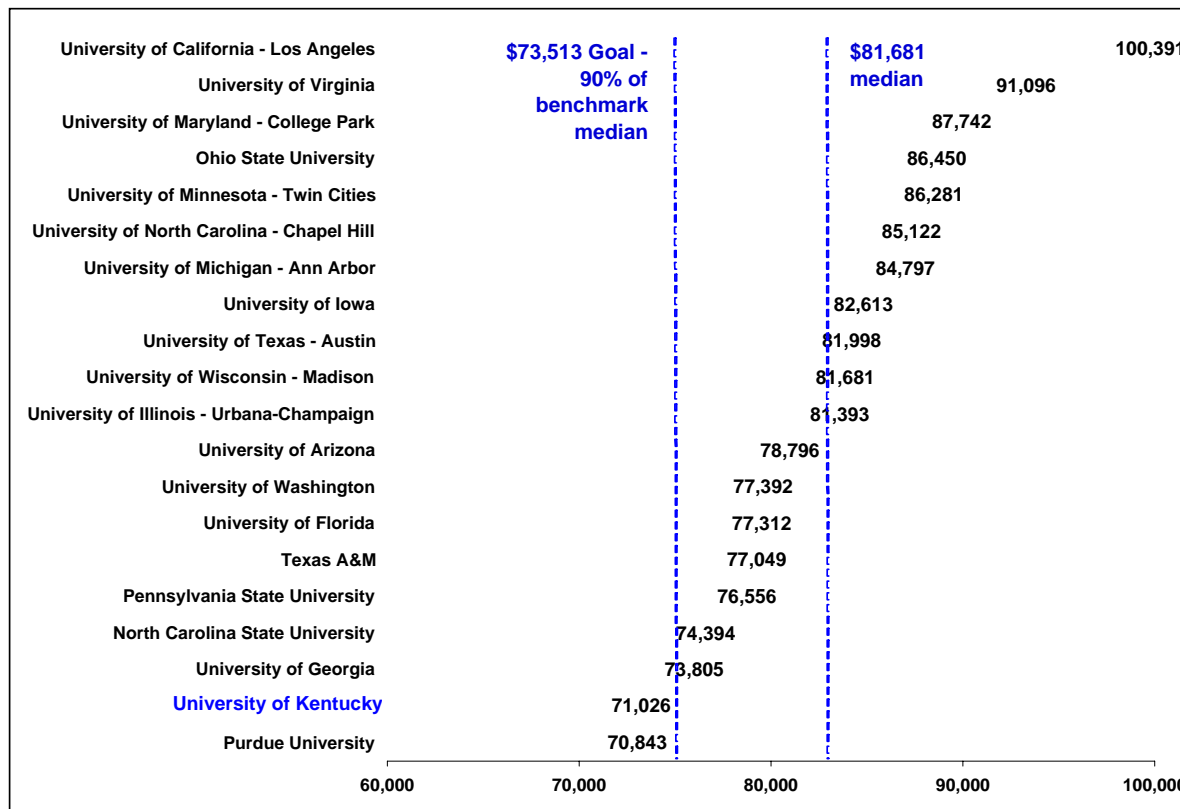
Since 2000, UK has increased the number of endowed chairs and professorships from 193 to 296, an increase of 53.4 percent.



**GREATEST CHALLENGE: RECRUITING AND RETAINING HIGH-QUALITY FACULTY**

In order to give students the best education possible, UK must recruit and retain high-quality faculty. But the salary increases UK has been able to afford over the last three years – 0 percent in 2002-03, 3 percent in 2003-04, and 1 percent in 2004-05 – have left faculty salaries next to last among UK benchmark institutions. One of the goals of UK’s 2003-2006 Strategic Plan: *The Dream and the Challenge* is to increase the average faculty salary to at least 90 percent of the benchmark median. UK will invest in a four percent salary increase pool in 2005-06. This will be only the first installment in a long-term effort to increase salaries to competitive levels.

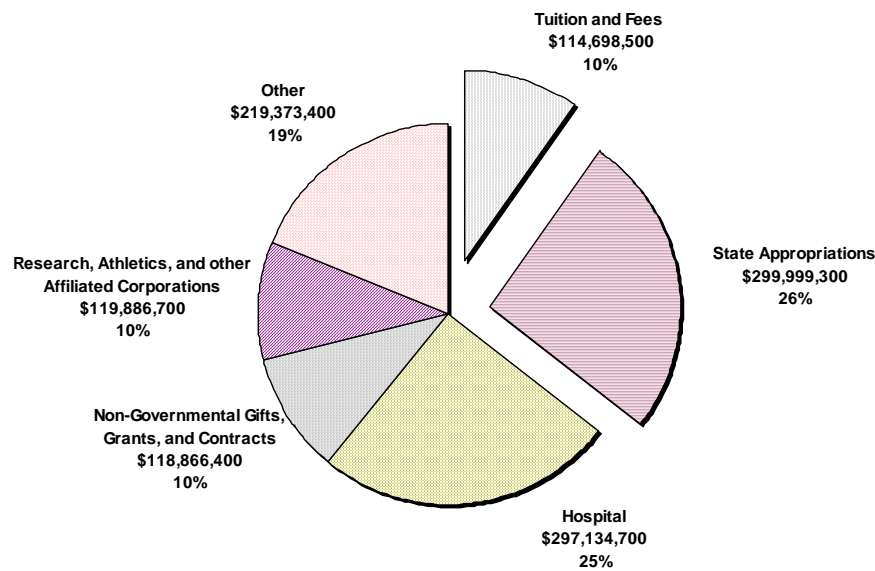
**AVERAGE FACULTY SALARY (ALL-RANKS), 2004-2005**



**UK'S CHANGING BUDGET**

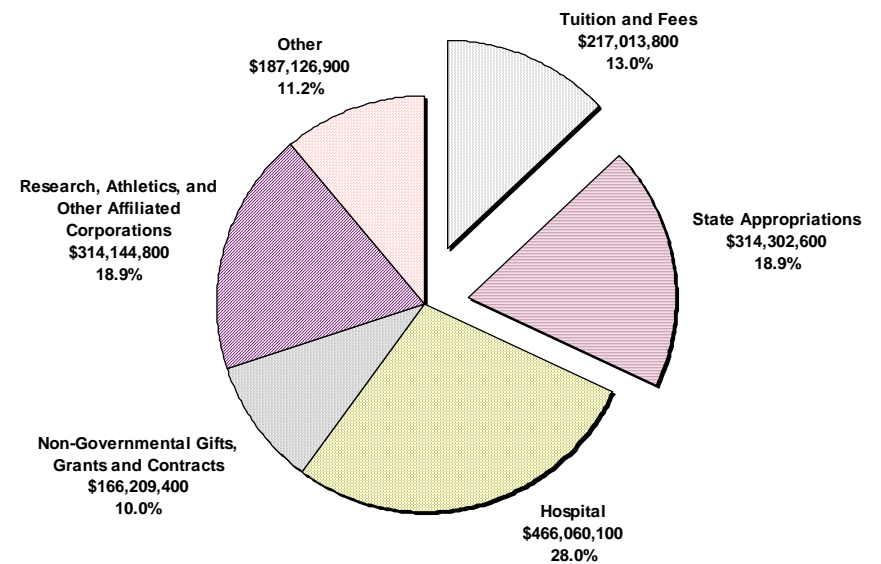
Even though UK will receive \$18.6 million in additional state appropriations in 2005-2006, these appropriations constitute a much smaller share of UK's budget than they did in 2000-2001. This is a result of the reductions in state appropriations over the last three years and the rapid growth in other fund sources, including hospital revenue, federal research, and external grants and contracts.

**Budget  
2000-2001**



Total: \$1,169,959,000

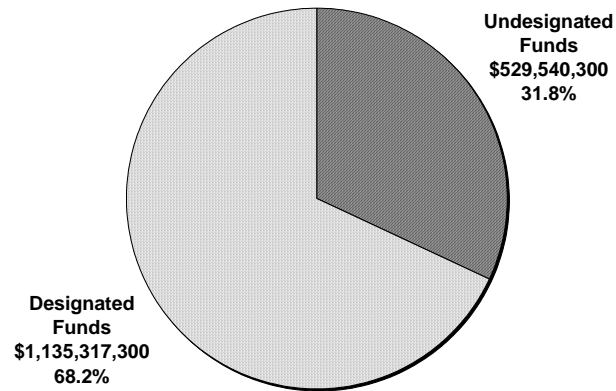
**Budget  
2005-2006**



Total: \$1,664,857,600

2005-2006 BUDGET

<b>Undesignated General Funds for Educational and General Activities</b>	
State Appropriation	\$314,302,600
Tuition	169,817,800
Other	45,419,900
<b>Total</b>	<b>\$529,540,300</b>
<b>Designated General Funds</b>	
University Hospital	\$466,060,100
Research, Athletics, and Other Affiliated Corporations	314,144,800
Non-Governmental Gifts, Grants, and Contracts	166,209,400
Fees	47,196,000
Other	141,707,000
<b>Total</b>	<b>\$1,135,317,300</b>
<b>Grand Total</b>	<b>\$1,664,857,600</b>



## CHANGES IN FUNDING SOURCES AND FUNDING NEEDS, 2004-2005 TO 2005-2006

### UNDESIGNATED GENERAL FUNDS FOR EDUCATIONAL AND GENERAL ACTIVITIES

#### FUNDING SOURCES

Additional State Appropriation		\$ 13,248,100
Earmarked State Appropriations:		
County Extension Agents	\$1,000,000	
Kentucky Health Care Infrastructure	175,000	
Collaborative Center for Literacy Development/Reading Recovery Teacher Training Program	600,000	
West Liberty Regional Technology Center	750,000	
Maintenance and Operations and Utilities	2,887,900	5,412,900
Tuition Revenue		15,794,000
Other net income from investments		3,833,000
		<u>\$ 38,288,000</u>

#### FUNDING NEEDS

Salaries (four percent salary increase pool and additional funds for retention and equity)	\$15,007,200
Benefits (including health insurance)	2,489,500
Scholarships	11,604,100
Dedicated Tuition Differential	1,334,000
Earmarked State Appropriations	5,412,900
Program Improvements, including the Integrated Resource Information System (IRIS)	3,603,400
Academic and Public Safety Improvements	1,760,800
	<u>\$ 41,211,900</u>

#### INTERNAL REALLOCATION / RESERVES

\$ 2,923,900

**CAPITAL PROJECTS TO BE INITIATED****Biological Sciences/Pharmaceutical Complex - Phase I:**

- the number of students in UK's # 8 ranked College of Pharmacy will increase by 30 percent
- more pharmacists will graduate and more pharmacy-related businesses will be created
- research will be conducted on cancer, heart disease, diabetes, and lung disease
- external research support will increase from \$10 million to \$60 million per year by 2014
- the number of faculty start-up companies will double by 2012

**Animal Diagnostic Center - Phase I:**

- state-of-the-art research and development and diagnostic services will be provided to Kentucky's equine and cattle industries
- 18 research teams will conduct nationally-known programs in animal health and biosecurity
- new technologies with substantial commercial potential will be developed
- the number of patents and licenses is expected to double
- external funding is expected to increase to at least \$5 million per year

**Patient Care Facility - Phase I:**

- UK will handle an increase from 21,188 patients in FY 2005 to 26,240 by FY 2010
- UK will increase medical research substantially beyond the current \$100 million annually
- 1,600 construction jobs and 1,300 permanent jobs will be created

**Student Health Facility:**

- the 64,770 square foot facility will provide much-needed space to accommodate increases in student demand for services, improve the delivery of services, and protect patient privacy

### BUDGET HIGHLIGHTS

The recommended FY 2005-06 operating budget reflects the University's goals and objectives of our Strategic Plan, *The Dream and the Challenge*. We clearly have invested in faculty, staff, and students. Some highlights from the recommended budget follow. The amounts listed below represent the cost to those units supported with undesignated General Funds (i.e. state appropriations, tuition, investment income, etc.) for educational and general activities:

- It is imperative that the University provides competitive salaries for faculty and staff if UK is to become one of the Top 20 public research institutions in the nation. We have devoted over 44 percent of the new funds to providing a four percent merit salary increase pool, a 'faculty fighting fund', a staff equity pool, and health insurance benefits. The University has assumed the majority of the increase in health insurance premium costs for employees enrolled in the UK HMO plans. Total cost for salary enhancements and increase in the employee health insurance program: \$17.5 million
- The University must attract and retain quality students to meet the goals of House Bill 1. Scholarships are a critical recruiting tool. As of FY 2002-03, the University invested a percentage of institutional funds in scholarships (4.6 percent) that was lower than the median of UK's benchmark institutions (5.2 percent). The University's scholarship budget will be increased to cover the tuition rate increase and continued support of the Governor's Scholars and Governor's School for the Arts Scholarship Program and the Legacy Program. In addition, the University will invest another \$500,000 into the existing \$1 million need-based scholarship program to help keep UK accessible. Furthermore, the University will allocate \$500,000 to attract more National Merit students. Total scholarship increase: \$11.6 million
- Over \$10 million of recurring and nonrecurring funds will be invested strategically in high-priority academic and support programs as listed below
  - \$2.9 million for the maintenance and operation of new facilities that have recently come online, including the Biomedical and Biological Sciences Research Building and the Center for Rural Health
  - \$1.3 million of tuition revenue will be returned to the colleges of Pharmacy and Nursing primarily for additional faculty and staff

- \$800,000 for academic program enhancements including \$500,000 allocated to four colleges – Agriculture, Arts and Sciences, Communications and Information Studies, and Education - that experienced enrollment increases of at least six percent from FY 2000-01 to FY 2003-04. Other enhancements include the recruitment and appointment of two college deans and funding additional faculty and operating expenses for several colleges
- \$800,000 to fund campus-wide security
- \$1.5 million for the Integrated Resource Information System (IRIS) project, the replacement of the finance, human resources, and student information systems
- \$1 million for the implementation of the county extension agent career ladder program
- \$600,000 for the Collaborative Center for Literacy Development
- \$175,000 for the Kentucky Healthcare Infrastructure
- \$566,600 for increases in general, automobile, and property insurance premiums
- \$150,000 to offset inflationary costs for monographs, serials, and journals in the University Libraries
- \$1 million for renovating and equipping classrooms

The recommended budget also reflects increases related to units supported with designated General Funds, including:

- the University Hospital projects a \$103.1 million increase in revenues and expenses
- the University of Kentucky Research Foundation anticipates an increase of \$23.3 million from new grant and contract activities
- the student health fee increase approved by the Board of Trustees in April will generate approximately \$1.7 million to fund the debt service for construction of the new Student Health Facility
- an \$826,500 increase in telecommunications revenues and expenses is budgeted primarily as a result of an agreement with the Council on Postsecondary Education to manage the Kentucky Postsecondary Education Network (KPEN)

The budgeted FY 2004-05 fund balances were extraordinarily high as the institution prepared for the anticipated, nonrecurring reduction in state appropriations that occurred in March 2005 with the passage of House Bill 267. As a result, the recommended FY 2005-06 budget reflects a \$12.2 million decrease in budgeted fund balances.